

CITY OF PRAIRIE CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

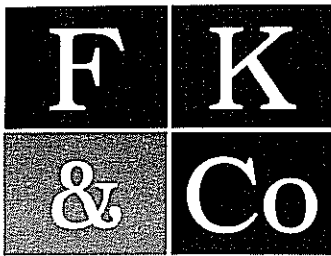
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City of Prairie City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chad Alleger	Mayor	Jan 2016
Larry Wenthe	Council Member	Jan 2016
Lyle Burkett	Council Member	Jan 2018
Dan Downey	Council Member	Jan 2018
Andrea Engle	Council Member	Jan 2018
Terri Rosonke	Council Member	Jan 2016
Nancy Earles	City Clerk	Indefinite
Emmanuel Torbio	City Administrator	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which are established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Prairie City for the period July 1, 2014 through June 30, 2015. The City of Prairie City's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Prairie City, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Prairie City and other parties to whom the City of Prairie City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Prairie City during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

Faller, Kincheloe & Co, PLC

December 7, 2015

Des Moines, Iowa

Detailed Recommendations

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Prairie City (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Fire Department – The following were noted for the Fire Department:

- All accounting functions are handled by one individual without adequate compensating controls.
- Proper supporting documentation for disbursements is not maintained.
- Supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – The Fire Department should segregate accounting duties to the extent possible and proper supporting documentation should be maintained for disbursements. In addition, supporting documentation for claims should be cancelled to prevent reuse.

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

(C) City Ambulance Department – The following were noted for the Ambulance Department:

- All accounting functions are handled by one individual without adequate compensating controls.
- Supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – The Ambulance Department should segregate accounting duties to the extent possible. In addition, supporting documentation for claims should be cancelled to prevent reuse.

(D) Separately Maintained Records – The City Fire and Ambulance Departments maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

(E) Financial Condition – At June 30, 2015, the City had a deficit balance of \$605 in the Debt Service Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

(F) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 50% for property tax relief and 50% for community betterment and/or any lawful purpose. All of the local option sales tax receipts are recorded in a special revenue fund and 100% is transferred to the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (H) Annual Urban Renewal Report (AURR) – As of June 30, 2015, the City overstated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$98,522.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

- (I) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Based on a review of the City's records, and based on the review of the County Auditor's "Urban Renewal Area, TIF Indebtedness/Increment Tax Revenue Reconciliation" prepared in December 2013, it appears the City certified approximately \$1,100,000 in excess debt.

In a prior year the City's certification included payments pertaining to rebate and economic development agreements which include an annual appropriation clause. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.

Recommendation – The City should work with TIF legal counsel to determine the disposition of the City's TIF certification and the amount of TIF debt to be decertified, if any.